

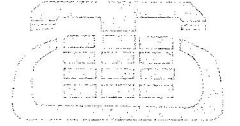
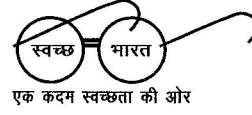
**महानगर टेलीफोन निगम लि.**

(भारत सरकार का उद्यम)

**Mahanagar Telephone Nigam Ltd.**

(A Government of India Enterprise)

CIN: L32101DL1986GOI023501



MTNL/CO/RA/TRAI CP on **Tariff Issues/2020**

Dated 28.02.2020

To

**Advisor (F&EA)  
Telecom Regulatory Authority of India  
Mahanagar Door Sanchar Bhawan  
Jawahar Lal Nehru Marg (Old Minto Road)**

Sub. : TRAI Consultation dated 17.12.2019 on "Tariff Issues on Telecom Services".

TRAI issued a consultation paper on 17.12.2019 on the above mentioned subject and requested the various stakeholders to comment on the issues involved in the consultation paper. In this reference the following comments are submitted for consideration:

**Q1. Do you foresee any requirement of regulatory intervention at this stage in tariff fixation to protect the interest of telecom service providers as well as the consumers? Please support your comments with justification.**

**MTNL Reply:**

Considering the financial health of the telecom sector, there seems to be an urgent requirement of regulatory intervention at this stage in tariff fixation to protect the interest of telecom service providers. MTNL welcomes the initiative of TRAI in this regard.

Tariff is an inherent tool at the hands of a TSP to influence and acquire customers and customer is always benefitted in the process, however, notably, ultra-low tariff and free service by TSPs have affected the financial health of telecom sector as a whole. The telecom as an industry is characterized by the network in which the market share and number of customers are important to compete in the market. Further, the economies of scale are necessary to survive in the competitive market and to meet the customer requirements for quality of service and coverage. Essentially it is the customer base which is of utmost importance and defining factor for any tariff fixation consideration by any TSP. **Accordingly, a TSP having negligible or low customer base needs to be kept out of the purview of tariff fixation.**

**MTNL suggests that while the Authority is considering tariff fixation, it must be applicable only on the TSPs having a minimum of 15 % subscriber base (calculated on the basis of VLR for mobile customers) in that particular LSA. This will ensure level playing field between all TSPs – both new and incumbent, and ensure a healthy and financially viable telecom sector. Further it is proposed that the exemption, from the floor price, given to a TSP for a particular LSA, where the market share based on VLR subscriber base is less than 15%, should not be**

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**applicable once the TSP attains the market share of more than 15%. This will also facilitate new entrants in the sector to maintain vibrancy.**

A healthy financial situation will ensure continuous capital infusion which is essential for this technology intensive sector.

India needs massive investment in deploying newer technologies and to provide telecom services across length and breadth of the country. The rolling out of 5G networks is around the corner and huge capital expenditure will be needed in near future to roll out the services. At the present low level of ARPU, no investment can be justified as the capital investment cannot have very long return period due to fast obsolescence of technology. The twin factors of huge capex requirements and fast changing technologies have raised questions on viability of telecom projects. The only solution is to raise the ARPU so that there are justified returns on the investments. To mitigate the present stress and to ensure adoption of future technologies, MTNL supports the regulatory intervention for tariff fixation of the Authority in the current situation with a submission that operator with 15% or less market share in that LSA be exempted.

**Q2. Do you foresee any need for change in TRAI policy of forbearance in tariffs? Please give reasons for your response.**

**MTNL Reply:**

Considering the financial health of telecom industry and demands of major TSPs, MTNL feels that there is need for a change in TRAI policy of forbearance in tariffs as a short term major.

Tariff policy has travelled through the time, from fixation of tariffs to 'Forbearance with prior approval stage' and finally to a "Forbearance regime with post-facto reporting obligation" with regulatory oversight. This flow shows that tariff is slowly left to market forces to decide from earlier tight regulatory dominated tariff regime.

However, as the telecom industry is facing heat due to sudden and unexpected entry of a capital rich TSP offering free and ultra-low tariff to acquire customers and resulting in closure of many TSPs, and this followed by the recent judgment of Hon'ble Supreme Court in AGR case where the existing TSPs have to make huge payouts to the Government - the telecom industry needs a helping hand - at least in the immediate short term - from the Authority, to survive. In the recent past many established TSPs had closed their business on huge loss and any further push down the line will bring the whole telecom industry in jeopardy. However, it is requested that the floor price should be applicable to only those TSPs which are having more than 15% market share in that LSA to maintain possibility of new entry in the sector where it is necessary for innovation and fast growth and also to allow small operators to compete and survive in the market.

**Q3. If the answer to Q1 is in affirmative, is fixing a floor price, i.e. a standing prohibition on TSPs not to offer services below a predetermined price level, the answer? Please give detailed reasons for your response.**

**MTNL Reply:**

Yes. The Authority should prescribe floor price for the services. This will help the TSPs to raise their tariffs above the current levels and market will evolve to new equilibrium. However, as submitted in response to Q1, the fixing of floor price should be limited and applicable to TSPs having a minimum subscriber base of 15% in that LSA otherwise floor price fixing may wipe out the prospective new TSP/ TSP having small customer



base from the telecom business altogether. TSPs require a minimum customer base to remain viable and survive.

**Q4. Do you perceive a need to fix floor price despite the fact that the TSPs have increased their tariff recently? Please support your response with detailed justification.**

**MTNL Reply:**

The TSPs have increased their tariff recently; however, even while increasing tariff they remain susceptible from each other to maintain their customer base. Even with this increase in tariffs the ARPU levels are below the levels needed for long term survival.

However, with the intervention of the Authority and fixed floor price, TSP would be assured that its nearest competitors (TSPs having similar customer base) will not be able to offer a competitive tariff below the fixed floor price and thus the TSP get assured of minimum revenue without any substantial loss in its customer base.

**Q5 (a). What methodology should be used to fix floor price by the Authority and why? Please give detailed methodology with calculations and supporting justification.**

**MTNL Reply:**

MTNL is of the view that there can be no methodology, equally justifiable to all stake holders who are largely unequal by their costing.

It is proposed that floor price be calculated by considering the total revenue, operational cost, profitability and investment during the recent quarter and this average industry cost be marked up by a certain percentage to reach to new price point.

**Q5 (b). If a floor price is considered, what should be the mark up over the relevant costs for arriving at a floor price? Please give detailed calculations and justification for your response.**

**MTNL Reply:**

MTNL has already made its stand clear on floor price above.

As regards markup over the relevant costs, it is stated that TSPs have different costs owing to structure, establishments, spectrum holding, network, etc and accordingly markup above relevant costs for one TSP may result in windfall profit to another TSP and similarly it may also cause windfall loss or just sustain the other TSP. The Authority shall need to ensure that its fixing of floor price does not result in windfall profits for a TSP and loss to another TSP. Therefore MTNL proposes to fix the floor prices based on average industry costs.

Notwithstanding; a markup of minimum of 25% or as approved by the Authority, above the current industry cost may be useful to the market. The markup should be sufficient to have minimum 14% return on investment. This will enable the TSPs to continuously upgrade the technology and expand the networks.

**Q6: Considering that cost of delivery of telecom services is likely to be different for different TSPs, what parameters should be considered to decide floor price and why? How can it be ensured that such a floor price fixation exercise does not**



**result in windfall profits to few TSPs? Please give your response with detailed reasoning.**

**MTNL Reply:**

Since, each TSP has different cost of delivery due to different technology, structure, establishment and network, uniform parameters to decide floor price for all TSPs may not be equitable. Any attempt to derive uniform parameters for floor price will result in advantage to some TSP at the cost of others. However, whatever parameter is decided, the Authority needs to ensure that such a floor price fixation exercise does not result in windfall profits to few TSPs. MTNL proposes to consider average industry cost to be considered for floor price fixation exercise.

**Q7. Is there a need to fix floor price for mobile data service? If yes, can such floor price be applied uniformly to different categories of subscribers such as retail consumer, corporate, tendered or otherwise contracts, segmented and any other including one on one? If it cannot be applied uniformly, will it not result in discrimination between various categories of subscribers? Please give your answer with detailed reasons and justification.**

**MTNL Reply:**

Yes, there is a need to fix floor price for mobile data service. Further, such floor price needs to be applied uniformly to different categories of subscribers such as retail consumer, corporate, tendered or otherwise contracts, segmented and any other including one on one. Essentially all are different categories of customers and ultimately affect the tariff war and revenue of the company.

**Q8. What should be the basis and methodology for floor tariff fixation for mobile data service? Give detailed justification and calculations for your response.**

**MTNL Reply:**

The Authority may decide on the basis and methodology for floor tariff fixation for mobile data service which is in the best of interest of telecom industry as a whole. Average industry cost should be taken the base to decide the floor price.

**Q9. What should be the representative cost for fixing a floor price for mobile data service? Give detailed calculations and justification for your response.**

**MTNL Reply:**

It should be based on average industry cost which should be marked up by 25% to arrive at floor price.

**Q10. Should fixation of floor price be considered for voice calls also? Please give your comments with detailed justification.**

**MTNL Reply:**

The fixation of floor price for voice calls and SMS should also be considered. In the present competitive situation, the tariff for voice calls has been the worst causality and therefore it cannot be left without the intervention of the Authority. In fact the need to fix floor price for voice calls is as strong as for mobile data. Fixation of floor price for data only will effectively fix the floor price for all these services being provided on data and leave behind the services provided on conventional voice networks.



Different TSPs have different combinations of technologies in their networks. The present offerings of practically free voice calls have made the voice based networks non-profitable. Fixation of floor price only for mobile data will ultimately adversely affect other TSPs which have combination of data and voice based networks.

**Q11. If the answer to Q10 is affirmative, given that different technologies are being used to provide voice services (2G, 3G and 4G), what should be the methodology used to arrive at a floor price for voice services? Please give detailed calculations and justification for your response.**

**MTNL Reply:**

MTNL advocates fixation of floor price for voice irrespective of the types of technologies employed and types of telecom network – be it 2G, 3G or 4G.

Regarding methodology of fixing the floor price, the method may be similar to method adopted for mobile data as proposed in response to Q8 and Q9.

**Q12: Should there be any limit on TSPs to offer free off net calls? Please explain your response with justification.**

**MTNL Reply:**

MTNL is of view that different treatment to off-net and on-net calls should not be allowed. The caller should not be expected to know the network of the called party.

**Q13. If your answer to Q12 is affirmative, how should unlimited voice calls be defined? Please give your comments with detailed justification.**

**MTNL Reply:**

Not applicable.

**Q14. If a floor price is considered, should there be any floor price prescribed for bundled offers, including those having unlimited voice calls and data? Please give your comments with methodology and detailed justification.**

**MTNL Reply:**

Different bundled offers have different combinations of volume of data, number of sms and minutes of voice calls. It would be difficult to fix and monitor floor price for every bundled offer. In case the Authority considers fixing the floor price, it is proposed that all service providers be asked to report separate tariffs of all individual services like voice, data, sms etc. The combination of only these basic building blocks, without any discounts in combo, should be allowed.

**Q15. If a floor price is considered, should there be a price ceiling also to safeguard consumer interest? Please give your comments with detailed justification.**

**MTNL Reply:**

MTNL is opposed to any price ceiling. Considering the present competition level, there seems to be no threat of undue high pricing by the service providers.



**Q16. If your answer to Q15 is in affirmative, what should be the methodology used for fixing a price ceiling for mobile data service, voice services and bundled offers. Please give detailed calculations and justification for your response.**

**MTNL Reply:**

Not applicable.

**Q17. Should all the tariff plans (retail consumer, corporate, tendered or otherwise contracts, segmented and any other including one on one) offered by the TSPs be subject to floor price tariff orders? Please give detailed justifications for your answer.**

**MTNL Reply:**

Yes, all the tariff plans (retail consumer, corporate, tendered or otherwise contracts, segmented and any other including one on one) offered by the TSPs should be subjected to the floor price tariff orders. Essentially, all these tariff plans ultimately affect the tariff war and revenue of the company. Restricting the floor price only to retail customers will be unfair to them.

**Q18. How can it be ensured that all the tariff plans of TSPs (retail consumer, corporate, tendered or otherwise contracts, segmented and any other including one on one), comply with the floor tariff orders? Please give your response with detailed justification.**

**MTNL Reply:**

TRAI has already mandated TSPs to file tariffs online at its portal.

The problem area will be assigning the value to different offerings in a combo plan. It is proposed that all operators be asked to report separate tariffs of all services like voice, data, sms etc. The combination of only these basic building blocks should be allowed without any discount for tariff fixation.

**Q19. Any other relevant issue that you would like to highlight in relation to the above issues?**

**MTNL Reply:**

NIL

This issues with the approval of Competent Authority.



**(Alok Kumar)**

**SDE(RA)**